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IN THE

Supreme Court of the United States

OCTOBER TERM 1996

EINHORN YAFFEE PRESCOTT ARCHITECTURE & ENGINEERING, P.C. and BAER MARKS & UPHAM,

Petitioners,

—v.—

J. LOUIS TURPIN, RHINEBECK ARCHITECTURE & PLANNING, P.C. and JOHN A. MISSELL,

Respondents.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

PETITION FOR WRIT OF CERTIORARI

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61 pp

QUESTIONS PRESENTED

1. Whether a plaintiff and its attorneys are denied the requisite mandates of due process where a district court imposes a monetary sanction under its inherent power and 28 U.S.C. § 1927 by (a) relying solely on conflicting affidavits containing disputed contentions rather than holding an evidentiary hearing, (b) failing to make the necessary factual findings constituting clear evidence of sanctionable conduct, and (c) assessing sanctions in an amount that the district court acknowledged included attorney's fees attributable to claims other than the Lanham Act claim that was found to be sanctionable.

2. Whether the summary order of the Second Circuit Court of Appeals -- which conflicts with decisions of the Supreme Court and other panels of the Second Circuit Court of Appeals -- erred in imposing sanctions against a plaintiff and its attorneys under its inherent power and 28 U.S.C. § 1927 where the Second Circuit radically departed from the requisite particularized showing of bad faith standard by (a) equating a Lanham Act claim recognized by other district courts within the Second Circuit with a claim that is entirely without color and devoid of any legal support, (b) improperly combining the two separate prongs of the bad faith test, (c) trivializing the required stringent showing of clear evidence of an improper purpose into a mere implication and (d) reducing the necessary articulation of clear evidence of meritlessness and improper purpose by means of highly specific factual findings to nothing more than the mere recitation of allegations of the defendants without any attempt to consider the various factual issues in dispute.

LIST OF ALL PARTIES TO THE PROCEEDINGS BELOW AND OF PARENT COMPANIES AND NONWHOLLY OWNED SUBSIDIARIES

Einhorn Yaffee Prescott Architecture & Engineering, P.C. was the plaintiff-appellant in the Second Circuit Court of Appeals. Baer Marks & Upham (counsel for plaintiff) was a non-party appellant in the Second Circuit Court of Appeals. Einhorn Yaffee Prescott Architecture & Engineering, P.C. and Baer Marks & Upham are the petitioners herein. The respondents herein were the defendants-appellees in the Second Circuit Court of Appeals.

Pursuant to Rule 29.6, petitioners Einhorn Yaffee Prescott Architecture & Engineering, P.C. and Baer Marks & Upham state that neither of them has any parent company or nonwholly owned subsidiary.

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IN THE

SUPREME COURT OF THE UNITED STATES

October Term 1996

EINHORN YAFFEE PRESCOTT ARCHITECTURE & ENGINEERING, P.C. and BAER MARKS & UPHAM,

Petitioners,

-- v. --

J. LOUIS TURPIN, RHINEBECK ARCHITECTURE & PLANNING, P.C. and JOHN A. MISSELL,

Respondents.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

Petitioners Einhorn Yaffee Prescott Architecture & Engineering, P.C. and Baer Marks & Upham respectfully petition for a writ of certiorari to review the judgment of the United States Court of Appeals for the Second Circuit, entered in the above-entitled proceeding on March 5, 1996.

OPINIONS BELOW

The opinion of the Court of Appeals for the Second Circuit is a summary order, was not published in the federal reporter and is reprinted in the annexed appendix, pp. 1a-3a, infra.

The Court of Appeals for the Second Circuit's denial of the petitioners' Petition for Rehearing and Suggestion of Rehearing In Banc has not been reported and is reprinted in the annexed appendix, pp. 25a-26a, infra.

The memorandum decision and order of the Untied States District Court of the Northern District of New York (Cholakis, D.J.), as amended, has not been reported and is reprinted in the annexed appendix, pp. 6a-22a, infra.

JURISDICTION

The United States Court of Appeals for the Second Circuit entered the judgment sought to be reviewed on March 5, 1996. See pp. 1a-2a, infra. The order of the Court of Appeals for the Second Circuit denying the Petition for Rehearing and Suggestion of Rehearing In Banc was entered on May 14, 1996. See pp. 25a-26a, infra. The jurisdiction of this Court to review the judgment of the Court of Appeals for the Second Circuit is invoked under 28 U.S.C. § 1254(1).

CONSTITUTIONAL PROVISIONS, STATUTES AND RULES INVOLVED

The Fifth Amendment to the United States Constitution provides in part:

> No person shall . . . be deprived of life, liberty, or property, without due process of law . . ..

15 U.S.C. § 1125(1) provides in part:

> Any person who, on or in connection with any goods or services, . . . uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any

false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which — . . .

> (B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities,

shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

28 U.S.C. § 1927 provides:

> Any attorney or other person admitted to conduct cases in any court of the United States or any Territory thereof who so multiplies the proceedings in any case unreasonably and vexatiously may be required by the court to satisfy personally the excess costs, expenses, and attorneys' fees reasonably incurred because of such conduct.

STATEMENT OF THE CASE

A. Basis of Jurisdiction in the District Court

The jurisdiction of the District Court was invoked pursuant to 28 U.S.C. § 1331 (federal question) and § 1367 (supplemental jurisdiction) as well as 15 U.S.C. § 1121 in that the claims set forth in the complaint of petitioner Einhorn Yaffee Prescott Architecture & Engineering, P.C. ("EYP") arose under the Lanham Act, 15 U.S.C. § 1125, or were so

related to such claims that they formed a part of the same case or controversy.

B. Statement of the Facts

1. Background of EYP's Claims

EYP is an architectural and engineering firm with offices in Albany, White Plains, and Washington, D.C. serving clients in several states throughout the United States.

EYP retained petitioner Baer Marks & Upham ("BMU") in or about May 1994 to evaluate potential claims against a former principal of EYP, respondent J. Louis Turpin, who had resigned abruptly with no notice and shortly thereafter secured work for his new firm, respondent Rhinebeck Architecture & Planning, P.C. ("RAP"), from the Hudson City School District ("HCSD"), a major client of EYP. Turpin was the principal at EYP responsible for an ongoing project with HCSD as well as for coordinating EYP's efforts to secure the future work contemplated by HCSD.

Turpin's unexpected departure from EYP, it was later learned, took place the morning following the HCSD School Board's vote to authorize Turpin, as a principal of EYP, to proceed with plans for implementing the consolidation project. Turpin never communicated this fact to his fellow principals and superiors on the day he departed EYP. Indeed, he not only concealed HCSD's authorization of EYP but lied to EYP in stating HCSD was months away from a decision.

In May 1994, EYP learned that HCSD was going to contract with RAP for the architectural services necessary for the HCSD consolidation plan. This came as a total surprise to EYP given that Turpin had led EYP to believe that the district

was months away from a decision. Upon learning that Turpin had established a firm to engage in direct competition with EYP, it was then believed that his unusual departure and efforts to conceal his future plans may have been orchestrated to enable him to divert business opportunities such as the HCSD project from EYP.

Following HCSD's announcement that it intended to award the consolidation project to RAP, respondent John Missell (then a principal and management committee member of EYP) conveyed to EYP a conversation he had with Turpin wherein Turpin stated that HCSD "did not want to work with EYP under any circumstances" because they were not receiving "good professional services." Turpin also had told EYP that HCSD did not like EYP and would never work with EYP. Prior to Turpin's resignation, however, HCSD had never expressed any dissatisfaction with EYP (which had managed HCSD's work through Turpin).

On June 5, 1994, John Missell advised EYP that he intended to resign from EYP. Missell indicated that he was pursuing several opportunities, including a possible affiliation with RAP. Missell had been Turpin's direct superior at EYP. On June 21, 1994, Missell was terminated when his affiliation with Turpin became apparent.

2. BMU's Investigation of EYP's Potential Claims

In June 1994, James E. Frankel, a BMU partner, sent a letter to Turpin requesting that he contact Frankel concerning allegations that Turpin had violated an agreement with EYP and possibly had committed other wrongs in connection with his solicitation of EYP clients.

Frankel was advised by Turpin to contact his attorney, John Marvin. Frankel then contacted Marvin several times to request a meeting to discuss the allegations that EYP intended to make against RAP, Turpin and Missell (collectively, the "RAP Parties") if a complaint had to be filed. Frankel emphasized that it was EYP's and his desire to avoid litigation. After Marvin cancelled a scheduled meeting among the parties, Frankel implored Marvin to reconsider his decision to cancel the meeting, as EYP would therefore have no choice but to pursue this matter in the context of a lawsuit, to which Marvin responded that EYP could do as it saw fit.

Prior to EYP commencing its lawsuit, BMU also pursued information from HCSD pursuant to the Freedom of Information Law ("FOIL") during the month of June in anticipation of a meeting with Messrs. Marvin, Turpin and Missell. BMU was unable to obtain all of the information requested (specifically, minutes of the HCSD's board meetings).

In addition, Frankel met with Carmi Rapport, Esq., counsel to HCSD, on June 17, 1994 and was advised at that time by Rapport that HCSD would not contract with EYP because it "did not like EYP" since EYP had overcharged HCSD on prior contracts. Frankel requested an opportunity to interview HCSD's superintendent or its business manager, but was advised by Rapport that such a meeting would only happen in the context of a legal proceeding by subpoena.

Thus, at this juncture, EYP reasonably believed litigation was necessary to stem any further wrongful conduct by Turpin and Missell. Pre-litigation investigation revealed that the long-standing solid business relationship between EYP and HCSD, which up until the end of April 1994 was on excellent terms, deteriorated virtually overnight upon Turpin's departure from

EYP. While Turpin, Missell and Rapport suggested that it was because HCSD "did not like EYP," no one at HCSD had ever complained about EYP's services -- that is, until the sudden departure of Turpin and Missell. Turpin and Missell had been introduced to numerous EYP clients and potential clients in several states during the course of their employment at EYP; therefore it was reasonable to believe that if Turpin and Missell had disparaged EYP to damage its relationship with HCSD, they might continue to do so with other clients as well.

Indeed, it was completely reasonable to assume that a connection existed between the souring of the EYP/HCSD relationship, the sudden unexpected departures of Turpin and Missell and the award of HCSD project to RAP; and it was apparent based on Frankel's interviews and investigation that these facts could only be confirmed through discovery after commencement of a lawsuit.

BMU reasonably concluded that disparagement of EYP by Turpin and/or Missell to eliminate EYP from competition for the HCSD project had occurred. This belief was further reinforced by the fact that Turpin, as a principal of EYP, had both an ethical and legal duty to advise EYP as to the status of the HCSD project upon his departure; instead, he had concealed all information pertaining to the April 4, 1994 HCSD board meeting whereat the board gave Turpin, as a principal of EYP, authority to proceed with the development of the HCSD consolidation project.

3. The Decision to Proceed Under the Lanham Act

Based on BMU's research of existing case law interpreting the Lanham Act, it was reasonably believed that if disparaging statements had been made as outlined above, a claim under the Lanham Act was sustainable. Specifically, it

was believed that the facts and reasonable beliefs outlined above were consistent with the facts set forth in National Artists Management Co. v. Weaving, 769 F. Supp. 1224 (S.D.N.Y. 1991), in which a former employee's verbal disparagement of her former employer to obtain clients for her new competing business was held to be a sustainable claim under section 43(a) of the Lanham Act.

During the month of June 1994, EYP incurred $37,144.75 in legal fees in connection with the investigation of the facts and research of the law in this matter, $3,285.15 of which was exclusively for research of the Lanham Act.

EYP commenced the underlying action by order to show cause dated July 1, 1994, which sought injunctive relief and a temporary restraining order against the RAP Parties. EYP asserted claims under the Lanham Act as well as claims for breach of loyalty, breach of restrictive covenant, unfair competition and other related claims. The order to show cause also requested expedited discovery.

By order dated July 12, 1994, the District Court denied the request for a temporary restraining order, scheduled a preliminary injunction hearing and directed that "discovery necessary for the hearing on the preliminary injunction" proceed on an expedited basis.

4. Discovery in the Federal Action

Pursuant to the District Court's July 12, 1994 order, EYP commenced discovery on the merits of its Lanham Act and pendent claims. A document demand was served upon the RAP Parties, their depositions were scheduled, and certain HCSD school board members and officials were subpoenaed

for testimony concerning their involvement in the selection of RAP as the district's architect.

A total of nine non-party depositions and three party depositions were conducted during the months of August and September 1994. The parties appeared before Magistrate-Judge Hurd (EYP through its local counsel) on only one occasion concerning an issue of attorney-client privilege. The majority of the depositions were completed in one half of a day each. The discovery conducted by EYP was tailored to the issues presented by its lawsuit.

Evasive and untruthful deposition testimony elicited during discovery reinforced the belief of EYP and BMU that the RAP Parties had disparaged EYP while soliciting EYP's clients. Such testimony, which obfuscated facts necessary to support the Lanham Act, was elicited from Turpin, Missell and HCSD's superintendent.

5. The RAP Parties' Initial Sanctions Motion

The RAP Parties originally commenced their motion for sanctions pursuant to FRCP 11 by order to show cause dated September 22, 1994. The RAP Parties included this Rule 11 motion with their summary judgment motion in direct contradiction to the requirements of Rule 11. EYP requested that the RAP Parties withdraw the motion due to the procedural deficiencies; however, they refused.

6. The Decision to Withdraw from Federal Court

EYP was confronted with suspect testimony from party and non-party witnesses throughout the limited discovery period and believed that its efforts to uncover all of the facts concerning Turpin's and Missell's plans had been on target;

however, uncovering the facts necessary to sustain its Lanham Act claim would be difficult or impossible due to obfuscation by witnesses.

EYP and its attorneys (BMU and EYP's local counsel, Deily, Testa & Dautel) also assessed the facts that they believed supported EYP's jurisdictional basis in the District Court subsequent to the commencement of the lawsuit. In responding to the RAP Parties' summary judgment motion, the several attorneys working on this matter culled the material obtained during their investigative efforts and during the limited discovery period and prepared opposition papers to the motion. Prior to submission of the motion, however, Frankel, EYP and EYP's local counsel, conferred to assess the likelihood of success in defeating the summary judgement motion and the strategy for proceeding thereafter. Based on all of the information gathered to that date, it was believed that the evidence necessary to conclusively establish a jurisdictional basis in the District Court under the Lanham Act existed; however, further extensive efforts would be necessary to uncover that evidence, if it could at all be uncovered due to the RAP Parties' efforts to conceal their plans.

The conclusion was therefore reached that EYP's resources would be better expended in pursuing the pendent state law claims in state court rather then to continue to search for evidence that would conclusively establish jurisdiction in District Court. On October 13, 1994, EYP's local counsel sought the consent of counsel for the RAP Parties to a voluntary dismissal of EYP's complaint, which consent was refused. Therefore, on October 14, 1994, EYP's local counsel appeared before Hon. Con G. Cholakis to voluntarily dismiss EYP's lawsuit in the District Court without prejudice to resume the pendent state claims in state court.

Pursuant to FRCP 41(a)(2), the District Court entered an order dated October 27, 1994 providing for such discontinuance. (Appendix, pp. 23a-24a) The October 27th order also denied as moot the RAP Parties' summary judgment motion and denied the RAP Parties' sanctions motion without prejudice to file "appropriate motion papers and supporting papers providing notice as required under Rule 11 . . . demonstrating attorney's time expended in this proceeding relative to claims asserted by [EYP] under 15 U.S.C. 1125 (Lanham Act)." Id. EYP thereafter reasserted the pendent claims, including breach of fiduciary duty, breach of restrictive covenant and unfair competition in Albany County Supreme Court.

7. Tort Action Against EYP and its Attorneys

In October 1994, Turpin and Missell commenced a lawsuit in Dutchess County Supreme Court against Frankel, BMU, EYP and three of EYP's principals claiming defamation, tortious interference with contract and prospective economic advantage, malicious prosecution, intentional infliction of emotional distress and prima facie tort. Turpin and Missell also sought a preliminary injunction to prevent Frankel from communicating with any RAP client, which application was denied by the court. Shortly thereafter, Turpin and Missell conducted several depositions and scheduled several more.

8. The Second Sanctions Motion

Following a failed mediation effort in December 1994 and over two months after the discontinuance of the District Court action, the RAP Parties refiled their motion for sanctions pursuant to Rule 11. EYP again requested that the RAP Parties withdraw their motion in light of the discontinuance of

the federal action. EYP received no response to its withdrawal request.

EYP responded to the motion and cross-moved for sanctions on the basis that the RAP Parties' motion was improper in light of the discontinuance of the District Court action and therefore itself sanctionable. The RAP Parties then filed reply papers in further support of their motion and opposition to the cross-motion. It is in the RAP Parties' reply brief in which they improperly attempt to amend their Rule 11 motion by including a request for relief pursuant to 28 U.S.C. § 1927, 15 U.S.C. § 1117(a) and the "bad faith" exception to the American Rule against fee shifting. EYP submitted a further reply.

The motion was submitted on the papers; the District Court did not hold any evidentiary hearing on the sanctions motion despite a request by counsel for EYP for such a hearing.

C. The District Court Decision

The District Court's Memorandum Decision and Order, dated May 12, 1995 (the "Decision"), granted the sanctions motion of the RAP Parties under 28 U.S.C. § 1927 and the inherent power of the court. The pertinent grounds for the Decision are as follows:

- The District Court distinguished National Artists Management Co. v. Weaving, 769 F. Supp. 1224 (S.D.N.Y. 1991), the principal case on which EYP relied in support of its Lanham Act claim, and held that "claims of disparaging remarks like the type asserted here are rarely recognized as Lanham Act claims." (Appendix, p. 17a)

- The District Court also distinguished National Artists in ruling that EYP's "assertions that it is engaged in business in several states is insufficient to call [the "in commerce"] provision of the Lanham Act into play." (Appendix, p. 17a)

- The District Court accepted the RAP Parties' argument that the Lanham Act was entirely without color, demonstrating that the lawsuit was solely for purposes of harassment. (Appendix, p. 18a)

- The District Court listed several "factors" of "evidence" in analyzing the improper purpose component of the bad faith test applicable to § 1927 and the inherent power of the court. (Appendix, pp. 18a-20a) The "evidence" consisted of allegations proffered in the RAP Parties' affidavits, all of which were disputed or refuted in the submissions of EYP and BMU in opposition to the RAP Parties' motion. Following its enumeration of this "evidence", the District Court held: "All of these factors support the implication that the main purpose of this lawsuit was to harass" the RAP Parties. (Appendix, p. 20a)

- In rejecting the argument of EYP and BMU that they had been denied the proper notice and opportunity to be heard, the District Court ruled that the notice of motion and response papers "avoid[ed] the need to hold an evidentiary hearing." (Appendix, p. 21a)

D. The Summary Order

In its Summary Order, dated March 5, 1996, the Second Circuit affirmed the judgment of the District Court, awarding sanctions in the amount of $93,955.19 against EYP

and BMU, in equal amounts, pursuant to 28 U.S.C. § 1927 and the inherent power of the District Court, on the grounds that EYP and BMU commenced and prosecuted a frivolous action under the Lanham Act.

In affirming "substantially for the reasons stated by the district court in its memorandum decision and order" (Appendix, p. 3a), the Second Circuit rejected the arguments of EYP and BMU that the District Court should have held "an evidentiary hearing before sanctions were imposed, and that in any event the sanctions motion was wrongly decided on the merits and the amount of the sanctions was wrongly determined." (Id.) The Second Circuit also held that the District Court did not err in failing to hold an evidentiary hearing because EYP did not "formally" request such a hearing. (Id.)

REASONS FOR GRANTING THE PETITION

I.

THE SECOND CIRCUIT'S IMPOSITION OF SANCTIONS UNDER 28 U.S.C. § 1927 AND THE INHERENT POWER OF THE COURT VIOLATED THE DUE PROCESS MANDATES ESTABLISHED BY THIS COURT

Sanctions, whether imposed under 28 U.S.C. § 1927 or the court's inherent power, entail the exercise of considerable discretion on the part of a district court. Because of the potential for abuse in such discretionary determinations, the safeguards of due process are particularly important. Furthermore, where, as here, the sanction is severe and based upon subjective determinations, due process protections assume an even more critical role in the administration of justice.

This Court has cautioned that because of the "very potency" of a court's inherent power, it should be exercised "with restraint and discretion." Chambers v. NASCO, Inc., 501 U.S. 32, 44 (1991); accord Roadway Express, Inc. v. Piper, 447 U.S. 752, 764 (1980) ("Because inherent powers are shielded from direct democratic controls, they must be exercised with restraint and discretion.").

The issue of due process in the imposition of sanctions of this magnitude bears consideration by this Court. Awards of attorney's fees pursuant to the various sanctioning mechanisms are increasingly encountered in federal litigation. Because of the enormous discretionary sanctioning power vested in judges -- and the consequent potential for abuse -- it is imperative that due process protections be accorded. An authoritative pronouncement by this Court of the nature and scope of the requisite due process is therefore necessary. Without such a pronouncement, the resulting uncertainty as to what is sanctionable conduct adversely affects the ability of attorneys to represent their clients without fear of being sanctioned in the absence of the mandates of due process.

A. Due Process Mandates that Findings of Bad Faith May Not Be Made Solely on the Basis of Conflicting Affidavits

The crux of the District Court's monetary sanction was its "implication" of bad faith on the part of petitioners. (Appendix, p. 20a) The imposition of sanctions did not comply with the requisites of due process. As this Court admonished in Chambers:

> A court must, of course, exercise caution in invoking its inherent power, and it must comply with the mandates of due process, both in

> determining that the requisite bad faith exists and in assessing fees.

Chambers, 501 U.S. at 50. Furthermore, this Court has articulated what the "mandates of due process" are in the sanctions context:

> Like other sanctions, attorney's fees certainly should not be assessed lightly or without fair notice and an opportunity for a hearing on the record.

Roadway Express, 447 U.S. at 767.[1]

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[1] The mandate that due process requires notice and an opportunity to be heard be provided prior to the assessment of sanctions also requires that an evidentiary hearing be held if necessary.

> An evidentiary hearing will be necessary "when the imposition of the sanction is dependent upon facts genuinely in dispute." The Committee on Federal Courts, Procedural Rights of Attorneys Facing Sanctions, 40 The Record 313, 323-24 (1985). See also Schwarzer, Sanctions Under the New Federal Rule 11, 104 F.R.D. 181, 198 (1985) (evidentiary hearing "should be avoided, unless the court must find disputed facts or resolve issues of credibility").

Eastway Construction Corp. v. City of New York, 637 F. Supp. 558, 568 (E.D.N.Y. 1986). Accord Chemiakin v. Yefimov, 932 F.2d 124, 130 (2d Cir. 1991) (there is no requirement that an evidentiary hearing be held prior to the imposition of sanctions, "absent disputed facts or issues of credibility"); Jones v. Pittsburgh National Corp., 899 F.2d 1350, 1359 (3rd Cir. 1990) (vacating order imposing sanctions and remanding matter for an evidentiary hearing which was mandated "to resolve disputes of material fact").

The District Court assessed sanctions against EYP and BMU without "an opportunity for a hearing on the record." Such failure is especially grievous in light of the District Court's substantial reliance on allegations included in the RAP Parties' affidavits -- allegations which the District Court adopted wholesale as "evidence" of bad faith despite EYP's well founded refutation of such "evidence" and notwithstanding that the merits of the underlying claims had never been determined. Where the District Court was required to substantiate by "clear evidence" its imposition of sanctions with "a high degree of specificity" in its factual findings, Milltex Industries Corp. v. Jacquard Lace Co., 55 F.3d 34, 38 (2d Cir. 1995), its failure to conduct an evidentiary hearing when faced with affidavits containing highly disputed allegations denied EYP and BMU the due process to which they were entitled.[2] See Schoenberg v. Shapolsky Publishers, Inc., 971 F.2d 926, 936 (2d Cir. 1992) (order imposing sanctions under 28 U.S.C. § 1927 was vacated where the attorney who was sanctioned was denied "an opportunity for a hearing on the record" and accordingly was denied due process).

The denial of due process resulting from the District Court's failure to conduct a hearing is exacerbated by the fact that

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[2] Nor does the District Court's reliance on International Ore & Fertilizer Corp. v SGS Control Services, Inc., 38 F.3d 1279, 1286-87 (2d Cir. 1994), cert. denied, 115 S.Ct. 2276 (1995) gainsay this conclusion. In International Ore, the district court granted the appellees' Rule 11 motion, which motion was included in the appellees' opposition papers to a motion for a new trial and supplemental findings. While the appellants submitted an affidavit in response to the appellees' opposition papers, the appellants made no mention of the sanctions request. The Second Circuit held that no evidentiary hearing was necessary in light of the appellants' failure to respond to the sanctions motion. Id. In sharp contrast to the appellants in International Ore, EYP and BMU responded to the sanctions motion by contesting each of the RAP Parties' factual predicates for such motion.

certain of the "factors" which the District Court enumerated to support the "implication" of bad faith concerned conduct before other tribunals, including the Albany County State Court, the New York State Education Department and the American Institute of Architects, as well as a settled action having nothing to do with the RAP Parties. (Appendix, p. 19a, n.7; p. 20a) This Court has explicitly held that a party may be sanctioned for misconduct "occurring beyond the courtroom" "[a]s long as a party receives an appropriate hearing." Chambers, 501 U.S. at 57. EYP and BMU received no hearing -- let alone an appropriate one. The sanctions assessed under the Decision thus violated the due process to which EYP and BMU were entitled.[3]

B. Sanctions Should Not Have Been Imposed in the Absence of the Requisite Factual Finding of Bad Faith

The stringent standard for the imposition of sanctions under § 1927 and the court's inherent power is well established in the Second Circuit:

> The Supreme Court has cautioned that because of the "very potency" of a court's inherent power, it should be exercised "with restraint and discretion." . . . [T]his Court, in recognizing the need for restraint, has

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[3] Nor should the Second Circuit be allowed to emasculate the due process mandate of an appropriate hearing by means of its reliance on the lack of a formal request by EYP for an evidentiary hearing. (Appendix, p. 3a) The fact that EYP requested a hearing (albeit not "formally" according to the Second Circuit) coupled with this Court's mandate that a hearing is necessary under the circumstances present here demonstrates the conflict between the Second Circuit's Summary Order and this Court's decisions.

always required a particularized showing of bad faith to justify the use of the court's inherent power:

> [W]e have declined to uphold awards under the bad-faith exception absent both "'clear evidence' that the challenged actions 'are entirely without color, and [are taken] for reasons of harassment or delay or for other improper purposes'" and "a high degree of specificity in the factual findings of [the] lower courts."

United States v. Int'l Brotherhood of Teamsters, 948 F.2d 1338, 1345 (2d Cir. 1991) (quoting Oliveri v. Thompson, 803 F.2d 1265, 1272 (2d Cir. 1986), cert. denied sub nom. Suffolk County v. Graseck, 480 U.S. 918 (1987)) (citations omitted). See Oliveri, 803 F.2d at 1273 (the requisite "clear showing of bad faith" under § 1927 is substantively identical to that necessary to invoke the court's inherent power); accord Schoenberg, 971 F.2d at 935.

The District Court's violation of the petitioners' due process rights in failing to hold an evidentiary hearing in the face of conflicting affidavits is exacerbated by its failure to actually make the requisite factual findings of bad faith conduct. Rather than engage in a fact finding analysis, the District Court simply listed a few of the allegations contained in the RAP Parties' affidavits:

> Defendants submit that not only was the Lanham Act claim clearly without color, demonstrating that this action was solely for purposes of harassment, but that there is substantial other evidence to support this assertion. A portion of which this court will specifically enumerate. . . . All of these factors

> support the implication that the main purpose of this lawsuit was to harass defendants. . . .

(Appendix, pp. 18a-20a)

None of the disputed "factors" were ruled upon by the District Court. Not one word of the statements and documentary evidence submitted by petitioners to refute such allegations is referred to in the Decision. Absolutely no discussion can be found in the Decision whereby the District Court makes any attempt to consider, analyze or weigh the various disputed factual issues. The District Court's failure to conduct an evidentiary hearing in the face of disputed facts underscores the absence of any assessment of the evidence. The District Court's treatment of the factual predicate for the sanctions motion amounts to no assessment and is therefore contrary to the due process mandates.

In the alternative, even if the District Court's listing of certain "factors" of the RAP Parties can be considered to be an assessment of the evidence, such an assessment is the result of the court overlooking the responsive evidence contained in the papers of EYP. An assessment (or, in other words, the finding of facts) implies that the court has considered the factual evidence submitted by both sides. There is nothing in the Decision to indicate that the District Court gave any consideration to the submissions of BMU and EYP -- submissions which denied, refuted or otherwise disputed the allegations made by the RAP Parties. (Indeed, the Decision's total silence as to the existence of any dispute as to any of the allegations leaves one wondering whether the District Court even read the submissions of EYP and BMU.) Once again, the District Court's failure to conduct an evidentiary hearing -- which was mandatory in the face of disputed facts --

underscores the lack of due process with respect to the District Court's assessment of the evidence.

C. The Amount of Sanctions Improperly Included Attorney's Fees Not Attributable to the Allegedly Sanctionable Conduct

Having failed to conduct the requisite evidentiary hearing and fact finding, the District Court compounded its non-compliance with the due process mandates by its flawed manner of computation of the sanctions award. The amount of the sanctions assessed is improper because such amount is not related to the conduct the District Court sanctioned -- i.e., the filing of the Lanham Act claim.

Indeed, the sanctions are contrary to the District Court's own October 27th order (Appendix, pp. 23a-24a) whereby the RAP Parties were directed to refile their Rule 11 motion and to "demonstrat[e] attorney's time expended on this proceeding relative to claims asserted by [EYP] under 15 U.S.C. 1125 (Lanham Act)." Instead, and as expressly noted by the District Court in its Decision, the RAP Parties "concede that a number of the issues that were addressed in the course of expedited discovery for this litigation, will be utilized in the other proceedings currently pending in the state courts." (Appendix, p. 24a) Thus, the RAP Parties conceded that they sought attorney's fees and costs for services rendered in connection with issues other than those relating to the Lanham Act -- which issues concerned the ongoing state court proceedings, one of which proceedings was commenced by the RAP Parties themselves.

Accordingly, the District Court's award of the entire amount of the RAP Parties' attorney's fees and costs is contrary to this Court's directive in Chambers:

> Because of their very potency, inherent powers must be exercised with restraint and discretion. A primary aspect of that discretion is the ability to fashion an appropriate sanction for conduct which abuses the judicial process.

Chambers, 501 U.S. at 44-45.

Certainly engaging in discovery in the District Court action, the results of which were relevant to issues in the state court action in which the RAP Parties are the plaintiffs, could not be deemed to constitute sanctionable "conduct which abuses the judicial process." Id. Thus, the sanction under the District Court's inherent power and 28 U.S.C. § 1927 is not proportionate to the level of improper conduct. Id.

II.

THE DECISION BELOW IMPOSING SANCTIONS UNDER 28 U.S.C. § 1927 AND THE COURT'S INHERENT POWER (A) CONFLICTS WITH DECISIONS OF THIS COURT AND PRIOR PANELS OF THE SECOND CIRCUIT AND (B) RAISES IMPORTANT QUESTIONS THAT SHOULD BE DETERMINED BY THIS COURT

The Second Circuit's Summary Order (as premised on the reasoning of the District Court's Decision) is irreconcilable with decisions of this Court and prior decisions of the Second Circuit. This irreconcilable conflict threatens confusion for the district courts in analyzing sanctions motions and creates harmful uncertainty for attorneys in representing their clients.

The Summary Order is at odds with the following decisions of this Court and the Second Circuit:

- Sierra Club v. U.S. Army Corps. of Engrs., 776 F.2d 383 (2d Cir. 1985), cert. denied sub nom. New York State Dep't of Transportation v. Sierra Club, 475 U.S. 1084 (1986):

The District Court (whose reasoning the Second Circuit adopts) accepts the RAP Parties' assertion that the Lanham Act claim was "clearly without color, demonstrating that this action was solely for purposes of harassment." (Appendix, p. 18a) The District Court's reasoning improperly combines the two separate prongs of the bad faith test -- i.e., the challenged actions are (1) entirely without color and (2) taken for improper purposes. The Second Circuit has previously rejected an attempt to merge the two components of the bad faith test. Sierra Club, 776 F.2d at 390-91 ("The test is conjunctive and neither meritlessness alone nor improper purpose alone will suffice. Although a frivolous position will often signal an improper purpose, we have never held that a frivolous position may be equated with an improper purpose. Such a simple equation would turn the two-part standard into a one-part standard, a step we decline to take."). In its Summary Order, the Second Circuit summarily shifted the standard articulated above to a one-prong test without even affording those affected a reasoned basis for such a departure.

- United States v. International Brotherhood of Teamsters, 948 F.2d 1338 (2d Cir. 1991) and Oliveri v. Thompson, 803 F.2d 1265 (2d Cir. 1986), cert. denied sub nom. Suffolk County v. Graseck, 480 U.S. 918 (1987):

In holding that a "rarely recognized" claim (i.e., one with limited legal support) was the equivalent of a claim "entirely without color," the Decision and the Summary Order

substantially loosened the stringent showing of meritlessness required under the bad faith standard.

Moreover, in ruling that a listing of "factors" of "evidence" supported the "implication" of an improper purpose, the Decision and Summary Order wholly undermined the stringency of the requirement that "clear evidence" of an improper purpose be set forth in highly specified factual findings. The "implication" of an improper purpose falls woefully short of the stringent "clear evidence" required. In essence, the District Court's analysis under the bad faith test renders the strict, two part standard meaningless. The District Court effectively eliminated the improper purpose component by means of a merger of the without color and improper purpose prongs (contrary to the Second Circuit's prior decision in Sierra Club); and then it converted the requisite showing of "clear evidence" into a trivialized "implication." Such an analysis, which eliminates the stringency of the sanction standards, is completely at odds with the prior holdings of the Second Circuit. Particularly with respect to such a drastic change in the standard from "clear evidence" to "implication" the Summary Order confuses the law in the Second Circuit without any guidance for those seeking to follow this Circuit's law. The mandate of clear, highly specific findings of fact is further eroded because the District Court's Decision is devoid of any indication that the court considered the responsive submissions of EYP and BMU to undertake the necessary process of actually finding the facts amid disputed evidence.

- Arrow United Industries, Inc. v. Hugh Richard, Inc., 678 F.2d 410 (2d Cir. 1982):

In limiting the "in commerce" component of the Lanham Act to mean that the false statement must itself have moved in interstate commerce, the Decision and the Summary Order

conflict with the Second Circuit's decision in Arrow United Industries, which held that the Lanham Act applied (even though both parties were New York companies and all of the activities on which the suit was based occurred in New York) because the plaintiff had a substantial interstate business that would be adversely affected by the misconduct. The Decision's restrictive reading of "in commerce" is not only inconsistent with Arrow United Industries (and the subsequent district court decision in Goldsmith v. Polygram Diversified Ventures, Inc., 1995 WL 614560 (S.D.N.Y. Oct. 19, 1995)) but also significantly undercuts the "entirely without color" component of the bad faith test by allowing sanctions to be assessed despite the existence of legal support for a claim.

- Roadway Express, Inc. v. Piper, 447 U.S. 752 (1980) and Chemiakin v. Yefimov, 932 F.2d 124 (2d Cir. 1991):

The holding of the Decision that the notice of motion and responsive papers obviated the need for an evidentiary hearing is at odds with the directive of this Court and the Second Circuit that an evidentiary hearing is required where the factual predicate for the sanctions is in dispute. Because the "factors" of "evidence" upon which the District Court relied were disputed, denied or refuted by EYP and BMU, the Decision and the Summary Order cannot be reconciled with the precedent requiring an evidentiary hearing. Nor is a reconciliation possible by relying -- as does the Second Circuit's Summary Order -- on the absence of a "formal" request for a hearing.

The Decision (as affirmed by the Summary Order) is directly in conflict with the many precedents of this Court and the Second Circuit discussed above. The Summary Order's adoption of the Decision's reasoning creates uncertainty as to

what is, and is not, sanctionable conduct as well as confusion as to Lanham Act pleading requirements. Review by this Court must be granted to avoid this result, which adversely affects the ability of attorneys to represent their clients without fear of being sanctioned in the absence of the requisite due process and for advocating a position that, while not entirely without color, is not favored by the district court.

CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be granted.

Dated: New York, New York
August 12, 1996

Respectfully submitted,

EUGENE R. SCHEIMAN
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Counsel for Petitioners

APPENDIX

UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

No. 95-7552

Filed March 25, 1996

SUMMARY ORDER

THIS SUMMARY ORDER WILL NOT BE PUBLISHED IN THE FEDERAL REPORTER AND MAY NOT BE CITED AS PRECEDENTIAL AUTHORITY TO THIS OR ANY OTHER COURT, BUT MAY BE CALLED TO THE ATTENTION OF THIS OR ANY OTHER COURT IN A SUBSEQUENT STAGE OF THIS CASE, IN A RELATED CASE, OR IN ANY CASE FOR PURPOSES OF COLLATERAL ESTOPPEL OR RES JUDICATA.

At a stated term of the United States Court of Appeals for the Second Circuit, held at the United States Courthouse, Foley Square, in the City of New York, on the 5th day of March one thousand nine hundred and ninety-six.

PRESENT: HONORABLE J. DANIEL MAHONEY,
HONORABLE JOHN M. WALKER, JR.,
HONORABLE GUIDO CALABRESI,
Circuit Judges.

EINHORN YAFFEE PRESCOTT
ARCHITECTURE & ENGINEERING, P.C.,

Plaintiff-Appellant,

—v.—

J. LOUIS TURPIN; RHINEBECK ARCHITECTURE & PLANNING, P.C.; JOHN A. MISSELL,

Defendants-Appellees.

APPEARING FOR APPELLANT: Eugene R. Scheiman, Baer Marks & Upham, New York, New York.

APPEARING FOR APPELLEE: Vincent L. Briccetti, Briccetti & Calhoun, White Plains, New York.

Appeal from the United States District Court for the Northern District of New York (Con. G. Cholakis, *Judge*).

This cause came on to be heard on the transcript of record from the United States District Court for the Northern District of New York and was argued by counsel.

ON CONSIDERATION WHEREOF, IT IS HEREBY ORDERED, ADJUDGED AND DECREED that the judgment of the District Court be and it hereby is AFFIRMED.

1. Plaintiff-appellant Einhorn Yaffee Prescott Architecture & Engineering, P.C. ("Einhorn") and its attorneys, Baer Marks & Upham ("Baer Marks") appeal from a judgment entered May 19, 1995, in the United States District Court for the Northern District of New York that awarded sanctions to

defendants-appellees J. Louis Turpin, Rhinebeck Architecture & Planning, P.C. ("Rhinebeck"), and John A. Missell in the amount of $93,955.19 for plaintiffs-appellants' prosecution of a frivolous Lanham Act suit. *See Einhorn Yaffee Prescott Architecture & Eng'g. P.C. v. Turpin*, No. 94-CV-830, slip op. (N.D.N.Y. May 12, 1995), *amended by Einhorn Yaffee Prescott Architecture & Eng'g. P.C. v. Turpin*, No. 94-CV-830 (N.D.N.Y. May 18, 1995) (order). The district court exercised its power to impose sanctions pursuant to 28 U.S.C. § 1927 and its inherent powers to supervise and control its own proceedings. *See Einhorn*, slip op. at 7. Einhorn and Baer Marks argue that they should have received an evidentiary hearing before sanctions were imposed, and that in any event the sanctions motion was wrongly decided on the merits and the amount of the sanctions was wrongly determined.

2. We affirm substantially for the reasons stated by the district court in its memorandum decision and order. *See id.* at 7-17. We note that Einhorn never formally requested that an evidentiary hearing be held, and therefore the district court did not err in failing to hold such a hearing.

/s/ J. DANIEL MAHONEY
Hon. J. Daniel Mahoney, U.S.C.J.

/s/ JOHN M. WALKER, JR. per JDM
Hon. John M. Walker, Jr., U.S.C.J.

/s/ GUIDO CALABRESI per JDM
Hon. Guido Calabresi, U.S.C.J.

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF NEW YORK

Case No. 94-CV-830 (CGC)

Filed May 19, 1995

EINHORN YAFFEE PRESCOTT
ARCHITECTURE & ENGINEERING, P.C.,

—v.—

J. LOUIS TURPIN, RHINEBECK ARCHITECTURE & PLANNING, P.C. and JOHN A. MISSELL

FINAL JUDGMENT IN A CIVIL CASE

☐ Jury Verdict. This action came before the Court for a trial by jury. The issues have been tried and the jury has rendered its verdict.

☒ Decision by Court. This action came to trial or hearing before the Court. The issues have been tried or heard and a decision has been rendered.

IT IS ORDERED AND ADJUDGED that judgment shall enter in accordance with the Memorandum Decision and Order dated May 12, 1995, and the Order dated May 18, 1995, of the Honorable Con. G. Cholakis, U.S. District Judge, granting defendants' motion for sanctions in the amount of $93,955.19 against plaintiff and its attorneys, Baer, Marks & Upham, in equal amounts.

MAY 19, 1995.
Date

/s/ GEORGE A. RAY
Clerk

/s/ SANDRA S. HAKER
Sandra S. Haker
(*By*) *Deputy Clerk*

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF NEW YORK

No. 94-CV-830

Filed May 19, 1995

EINHORN YAFFEE PRESCOTT
ARCHITECTURE & ENGINEERING, P.C.,

Plaintiff,

—against—

J. LOUIS TURPIN, RHINEBECK ARCHITECTURE & PLANNING, P.C. and JOHN A. MISSELL,

Defendant.

APPEARANCES:

ATTORNEYS FOR PLAINTIFF:

BAER, MARKS & UPHAM, ESQS.,
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New York, New York 10022

James E. Frankel, Esq.
Eugene R. Scheiman, Esq.
Paul H. Slaney, Esq.
Of Counsel

DEILY, TESTA & DAUTEL, ESQS.
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Albany, New York 12207

Jonathan D. Deily, Esq.
Of Counsel

ATTORNEYS FOR DEFENDANT:

O'CONNELL & ARONOWITZ, ESQS.,
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Neil H. Rivchin, Esq.
Of Counsel

LAW OFFICE OF ROBERT J. MARVIN
P.O. Box 151, 22 Mill Street
Rhinebeck, New York 12572

John R. Marvin, Esq.
Of Counsel

CON. G. CHOLAKIS, D.J.

ORDER

This order is issued in accordance with Rule 60(a) of the Federal Rules of Civil Procedure amending this Court's Memorandum Decision and Order dated May 12, 1995. The decision should be amended at page 4 to read:

> "A short time thereafter, plaintiff conceded there was not a sufficient basis to invoke federal jurisdiction under the Lanham Act. As of October 12, 1994, *Jonathan D. Deily of Deily, Testa & Dautel,* attorneys for plaintiff, represented that the plaintiff was going to withdraw the federal lawsuit, and continue this action in the state courts."

The decision should be further amended at page 17 to read: "In conclusion, defendants motion for sanctions is granted in the amount of $93,955.19 against plaintiff and its attorneys, *Baer, Marks & Upham*,[1] in equal amounts. Plaintiff's cross motion for sanctions is denied."

IT IS SO ORDERED.

/s/ CON. G. CHOLAKIS
CON. G. CHOLAKIS, JUDGE
UNITED STATES DISTRICT COURT

DATED: Albany, New York
May 18, 1995

[1] Local counsel Deily, Testa & Dautel did not participate in the sanctions motion, nor were sanctions sought against them.

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF NEW YORK

No. 94-CV-830

Filed May 12, 1995

EINHORN YAFFEE PRESCOTT
ARCHITECTURE & ENGINEERING, P.C.,

Plaintiff,

—against—

J. LOUIS TURPIN, RHINEBECK ARCHITECTURE & PLANNING, P.C. and JOHN A. MISSELL,

Defendant.

APPEARANCES:

ATTORNEYS FOR PLAINTIFF:

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James E. Frankel, Esq.
Eugene R. Scheiman, Esq.
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Robert R. Marvin, Esq.
Of Counsel

CON. G. CHOLAKIS, D.J.

MEMORANDUM DECISION AND ORDER

This matter is before the Court on separate cross motions for sanctions pursuant to Fed.R.Civ.P.11 seeking costs and attorney's fees. The original action involved the employment and termination agreement between plaintiff architectural firm and the individual and corporate defendants as a result of the activities which occurred subsequent to the resignation of the individual defendants as principals in plaintiff firm. Defendants Turpin and Missell were previously employed as architects by plaintiff, the architectural firm of Einhorn, Yaffee, Prescott (EYP). In or about April, 1994, Turpin resigned

from EYP, and sometime thereafter created his own architectural firm, Rhinebeck Architecture & Planning (RAP). Missell also resigned from EYP on or about June 9, 1994, and joined RAP as a partner. During his tenure with EYP, Missell had entered into an employment contract with EYP, limiting any future contacts with EYP clients.[1] Although Turpin had apparently been involved in similar negotiations with EYP regarding an employment contract, no such contract was ever executed.

Plaintiff commenced this action in July, 1994, asserting claims under the Lanham Act, and for breach of loyalty, breach of restrictive covenant, unfair competition and other related claims. It appears that the gravamen of the current lawsuit was the award of the Hudson City School District Consolidation project to RAP, rather than EYP. EYP maintained that the only reason that contract was awarded to RAP was because of the contacts and relationship Turpin had built with the Hudson School District during his tenure with EVP.[2] EYP also claimed Missell was involved in negotiations with the Hudson School District on RAP's behalf, while he was still employed with EYP.

EYP commenced this action by order to show cause, seeking a temporary retraining order prohibiting RAP and the individual defendants from contacting or soliciting anyone who had been a client or prospective client of EYP during the period of Missell's employment, and from using any of the information and materials allegedly misappropriated from EYP.[3] This court denied the preliminary injunction and,

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[1] The agreement provided in relevant part: ". . . [Missell] will not directly or indirectly contact or solicit, for the purpose of rendering any service which the Company [EYP] renders or has rendered in its business, any past or existing clients of the Company or any potential clients of the Company with which the Company may be in contact . . ."

[2] RAP had also attempted to obtain a contract with the Little Falls Central School District, but lost out on this contract to EYP.

[3] Plaintiff's Memo of Law in Support of Preliminary Injunction and TR0, at p. 17.

expressing questions as to the validity of the Lanham Act claim, ordered expedited discovery on that claim.

RAP later brought an order to show cause seeking summary judgment, claiming that following the expedited discovery schedule in this matter, there had been no evidence adduced to support plaintiff's Lanham Act claim. This being the only basis for federal jurisdiction, defendants requested summary judgment in their favor and sought sanctions against plaintiff. Defendants claimed plaintiff knew at the time the action was commenced that there was no Lanham Act violation, and that there were no improprieties here at all, but commenced this litigation, as well as two other proceedings[4] to "bury" the defendants and drive them out of business.

EYP originally responded to the summary judgment motion maintaining that there was a Lanham Act violation as defendants' activities in soliciting clients by making disparaging remarks concerning plaintiff's business are the type of deceptive commercial speech the Lanham Act is designed to guard against. EYP alleged these activities were conducted in interstate commerce due to EYP's business extending across state lines, and as such fell within the purview of the Lanham Act.

A short time thereafter, plaintiff conceded there was not a sufficient basis to invoke federal jurisdiction under the Lanham Act. As of October 12, 1994, Neil Rivchin of O'Connell and Aronowitz, attorneys for plaintiff, represented that the plaintiff was going to withdraw the federal lawsuit, and continue this dispute in the state courts.

Plaintiff sought discontinuance in accordance with Fed. R.Civ.P. 41(a)(2), requiring an order of the court for dismissal of an action following the filing of an answer by the defendant. Plaintiff indicated at the time it sought to discontinue this action that this was not done sooner because of out-

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[4] Plaintiffs have filed a complaint with the Professional Discipline Committee as well as a lawsuit in State Supreme Court. Defendants have also commenced a lawsuit in Dutchess County Supreme Court concerning disparaging utilization of the discovery materials in this case by plaintiff.

standing discovery requests pending before Magistrate-Judge Hurd as of October 6, 1994. Following a conference before this court on October 12, 1994, the request for a discontinuance was granted and an order signed on or about October 28, 1994. Defendants sought to preserve their sanctions request at the conference at which time the court specifically retained jurisdiction over this case for purposes of ruling on the sanctions issue. *See, Chambers v. NASCO Inc.*, 501 U.S. 32, 56 115 L.Ed.2d 27, 52 (1991).

Defendants how now filed a motion for sanctions pursuant to Fed.R.Civ.P. 11 and 28 U.S.C. § 1927 alleging this lawsuit was part of a course of conduct by EYP to drive them out of business.[5] They maintain the allegations in support of the Lanham Act claim were originally made upon information and belief but that there was no basis in fact to support such a claim. The expedited discovery schedule was specifically referenced to the need for some evidence to support the Lanham Act claim. Numerous depositions were held, including twelve members of the Hudson School Board and the two defendants, at considerable expense. Although plaintiff withdrew its claim following completion of discovery, it should be noted that the summary judgment motion referenced above was originally scheduled to be heard on October 4, 1994, and plaintiff did file opposing papers to that motion.

Fed.R.Civ.P. 11(c)(1)(A) was amended in 1993 to provide that a motion for sanctions ". . . shall be served in accordance with Rule 5, but shall not be filed with or presented to the court unless, within 21 days after service of the motion . . . the challenged paper, claim, defense contention, allegation or denial is not withdrawn or appropriately corrected . . ." This language makes clear that a party must comply with the service and notice requirements contained in Rule 11,

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[5] Defendants have also filed a motion for attorneys fees under the Lanham Act, however, none of the cases cited by defendants support treating a party as a prevailing party for purposes of attorneys fees where the action is voluntarily discontinued by plaintiff.

or they will be found to have denied the opposing party the "safe harbor" period the Rule mandates. *See*, *Hadges v. Yonkers Raceway Corp.*, No. 94-7444, U.S.App. LEXIS 4034 (2d Cir. March 2, 1995) (Failure to provide 21-day safe harbor period justifies reversal of sanctions award.) Plaintiff did withdraw the challenged claim when faced with the original, incorrectly served sanction request; as such there technically was no sanctionable conduct at the time the current motion was filed. Although avoidance of sanctions under Rule 11 in the current scenario would appear to fly in the face of logic and the intent of Rule 11, the service and filing requirements contained in the Rule are mandatory. *Segarra v. Messina*, 158 F.R.D. 230, 235 (N.D.N.Y. 1994).

However, the safe harbor provision of Rule 11 was not designed to allow a party to hide in that harbor until the last possible moment, at great expense to the other side. Use of the filing and service requirements as such a sword rather then a shield bolsters utilization of this court's inherent authority to sanction inappropriate court conduct, as well as the court's power to sanction improper or vexatious litigation under 28 U.S.C. § 1927.

When a court acts under its inherent powers to supervise and control it own proceedings, it may award a reasonable attorneys fee to the prevailing party when the losing party has "acted in bad faith, vexatiously, wantonly or for oppressive reasons . . ." *F.D. Rich Co. v. Industrial Lumber Co.*, 417 U.S. 116, 129, 40 L.Ed.2d 703, 714 (1974). Sanctions under 28 U.S.C. § 1927 are properly imposed only upon a "clear showing of bad faith" on the attorney's part." *McMahon v. Shearson/American Exp. Inc.*, 896 F.2d 17, 23 (2nd Cir. 1990) (citations omitted). "Like an award made pursuant to the court's inherent power, an award under § 1927 is proper when the attorney's actions are so completely without merit as to require the conclusion that they must have been undertaken for some improper purpose such as delay." *Oliveri v. Thompson*, 803 F.2d 1265, 1273 (2d Cir. 1986), *citing*, *Acevedo v. Immigration and Naturalization Service*, 538 F.2d 918, 920

(2d Cir. 1976). However, an award under § 1927 may only be made against attorneys or other persons authorized to practice before the courts, while an award under the courts inherent power may be made against an attorney, a party or both. *Id.* The question at issue here is whether there is clear evidence of bad faith conduct such as to merit the imposition of sanctions.

Plaintiff has continued to maintain that the original Lanham Act claim was filed in good faith, and that it has only been through the course of discovery that it was determined it could not succeed; once this determination was made, plaintiff asserts, the claim was discontinued. Defendants contend plaintiff knew from the start that the Lanham Act claim was not meritorious, and that this entire litigation was directed at putting defendants out of business.[6]

Plaintiff's claim under the Lanham Act was based upon § 43(a) which provides:

> Any person who, or in connection with any goods or services, . . . uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which—
>
> (B) in commercial; advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods services or commercial activities,
>
> shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

15 U.S.C. § 1125 (1988, Supp. 1992).

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[6] Although defendants claim this action was frivolous from its inception, sanctions were first requested in the summary judgment motion returnable October 14, 1994.

In opposition to the motion for summary judgment plaintiff alleged defendants had made false and misleading statements regarding the nature of EYP's services in the context of commercial advertising which plaintiff believed would cause it injury in accordance with the principles espoused in *National Artists Management Co., Inc. v. Weaving*, 769 F.Supp. 1224 (S.D.N.Y. 1991). In *National Artists*, the Court held the plaintiffs had sufficiently alleged a violation of Section 43(a) concerning the solicitation of sales and commercial promotion in the theater booking industry by a company's ex-president intent on starting her own business to withstand a challenge on subject matter jurisdiction. The court held that defendant's conduct in responding to inquiries concerning her future constituted more than "common bad-mouthing" in light of the unique nature of the industry, noting that "[i]n the context of the theater-booking industry, . . . "services" are "promoted" by word-of-mouth and information is spread through a network of telephone contacts with producers, promoters and presenters." *Id.*, at 1235.

The holding in *National Artists*, however, appears to have limited application to the facts of that case, and is inapplicable to the case at bar. Plaintiff has made no showing through discovery or throughout these proceedings that there are any unique attributes of the architectural business justifying extending the Lanham Act's application to the circumstances of this action.

In *Licata & Co. Inc. v. Goldberg*, 812 F.Supp. 403 (S.D.N.Y. 1993), the Court held the Lanham Act inapplicable to circumstances far more similar to those in the current action. The court examined the relationship between a sales agent for an insurance company and his new company. The plaintiff, defendant's prior company, alleged that the salesman had taken customer lists to the new company, and was making disparaging remarks concerning his prior company utilizing their customer list. The Court noted however, that "the Lanham Act's antideception provision [14 U.S.C. § 1125(a)] in its present form, designed among other things to bar misleading

commercial advertising, would be trivialized if it were applied to statements in oral conversations by an individual sales representative to an individual customer concerning matters which an ordinary listener would recognize as personal opinion as opposed to representations of hard definable facts such as product descriptions." *Id.*, at 408, *citing*, *Brignoli v. Balch Hardy and Scheinman, Inc.*, 645 F.Supp. 1201, 1209 (S.D.N.Y. 1986).

Thus it is clear that under existing caselaw, claims of disparaging remarks like the type asserted here are rarely recognized as Lanham Act claims. The activities involved in the current lawsuit are not the type of commercial communications anticipated by Congress in amending the Lanham Act to include commercial disparagement claims. "Robust debate between competitors on matters of opinion, and claims that one product or service is far superior to that of rivals, are encouraged as part of the hurly-burly inherent in a free market system and indeed an open society." *Id.*, at 408, (citations omitted). *See*, 14 C.F.R. § 14.15(1) (". . . disparaging advertising is permissible so long as it is truthful and not deceptive.") Thus discovery did not reveal any communications which fall within the purview of the Lanham Act, demonstrating that such a claim lacks merit at this time. Plaintiff continuing to maintain the existence of material factual disputes only prolonged this litigation, meriting the imposition of sanctions. *Chambers v. NASCO, Inc.*, 501 U.S. at 57.

More troubling however, is whether such a claim was frivolous at the time this action was commenced. A review of the provisions of the Lanham Act demonstrates that it was. The "commerce" provisions of the Lanham Act are directed at communications disseminated in commerce. Plaintiff's assertions that it is engaged in business in several states is insufficient to call this provision of the Lanham Act into play. As noted by Judge Broderick in the *Licata* decision:

> The Lanham Act's reach, while long, does not extend to the full outer limits of the commerce power. Its plain meaning—the Lanham Act utilizes the term "in com-

> merce" rather than "affecting commerce"—reflects a legislative judgment that for the statute to apply, the questioned advertising or statements, and not merely the underlying commercial activity, must be disseminated in commerce—i.e., not be purely local. See *Arrow United Industries v. High Richards, Inc.*, 678 F.2d 410, 413 n.5 (2d Cir. 1982).

Licata & Co. Inc. v. Goldberg, 812 F.Supp. at 409.

When determining the point at which a losing argument is a losing and sanctionable argument, the district court must resolve all doubts in favor of the signer of the pleadings. *Rodick City of Schenectady*, 1 F.3d 1349, 1350 (2d Cir. 1993). This court expressed doubts as to the likelihood of success on the Lanham Act claim at the time this action was commenced. It was not clear then that there was any possibility of establishing a legitimate claim, and plaintiff has failed to make any reasonable argument based upon the facts as developed through discovery to extend existing law to allow such a claim.

Plaintiff provides nothing to support its' original definition of interstate commerce as including the component that a party company merely doing business in other states will be sufficient activity to fall within the definition of interstate commerce. Indeed it appears there is no legal argument for extending application of the statute in this fashion. The issue then becomes whether there is clear evidence that this proceeding was filed for vexatious purposes, "and that the claims are 'entirely without color *and* made for reasons of harassment or delay or other improper purposes.' " *Simms v. Biondo*, 158 F.R.D. 247, 250 (S.D.N.Y. 1994), *quoting*, *Nemroff v. Abelson*, 620 F.2d 339, 348 (2d Cir. 1980).

Defendants submit that not only was the Lanham Act claim clearly without color, demonstrating that this action was solely for purposes of harassment, but that there is substantial other evidence to support this assertion. A portion of which this court will specifically enumerate:

—As noted above, plaintiff has commenced two other law suits against defendants alleging similar activities. Plaintiff has provided no explanation for simultaneously proceeding in these multiple forums.[7]

—EYP created delay and a conflict in attempting to mediate this action by billing the Hudson City School District for services during the course of litigation.

—EYP was aware of the lack of any factual basis for their assertions concerning disparaging remarks being made by defendants as early as August 9, 1994, at the time Carmi Rapport was deposed concerning the underlying circumstances.

—Since this action was instituted and continuing throughout discovery, there is nothing to indicate even a cursory investigation into the underlying basis for the Lanham Act claim.

—A principle of plaintiff made statements to the effect that this litigation was an attempt to "get" defendants prior to commencement of this lawsuit.

—Plaintiff's attorney contacted clients of defendants after this information was revealed in discovery to notify them of the pending lawsuit and infer the impending demise of defendant company.

—Plaintiff commenced a separate action in Albany County Supreme Court concerning discovery documents already provided to defendants attorneys in order to respond to plaintiff's

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[7] Defendants also cite to a similar law suit filed in this court involving plaintiff and another prior employee, where plaintiff utilized similar intimidation techniques to try and drive that employee out of business. The court recognizes that it is not appropriate to consider such matters in the context of a sanctions motion in this lawsuit, but notes, "[i]n considering whether there has been bad faith, the court can consider the manner in which the action was brought and the manner in which it was litigated." *Agee v. Paramount Communications, Inc.* 869 F.Supp. 209, 212 (S.D.N.Y. 1994) (citing *Oliveri*, 803 F. 2d at 1273); *Chambers v. NASCO Inc.*, 501 U.S. 57.

discovery request, necessitating defendants go forward in two separate forums concerning the same activities. Plaintiff also filed complaints with the New York State Education Department and the American Institute of Architects regarding the same factual issues involved in this litigation and the Albany Supreme Court litigation.

—Plaintiff's conduct in the discovery of this action has been characterized as outrageous on at least one occasion by Magistrate Judge Hurd of this court.

—Plaintiff's attorney provided materials from this litigation to individuals within the Hudson City School District in an effort to discredit defendants and possibly endanger Rap's contract with the school district.

—Defendants' attorney sought to encourage discontinuance of this action based on the lack of Lanham Act violation, at least as early as August 31, 1994, which attempts were summarily rejected.

All of these factors support the implication that the main purpose of this lawsuit was to harass defendants, to guarantee defendants would be diverting large amounts of time and money to litigation when they were trying to set a new business off the ground, and in effect prevent defendants from becoming a competing entity in the architectural field. Defendants' motion for sanctions is granted under the inherent power of this court and under 28 U.S.C. 1927.

Given that the facts of this case merit the imposition of sanctions, the only remaining questions are against whom and in what amount. As noted above, an award under 28 U.S.C. § 1927 may only be made against attorneys or other persons authorized to practice before the courts, while an award under the courts inherent power may be made against an attorney, a party or both. *Oliveri v. Thompson*, 803 F.2d 1265, 1273 (2d Cir. 1986). As detailed above, it appears that the bad faith activities in this action were certainly participated in by both counsel and plaintiff itself. Thus, under this court's inherent

authority sanctions will issue against both plaintiff and its attorneys in the amount set forth below.

Defendants in their moving papers concede that a number of the issues that were addressed in the course of expedited discovery for this litigation, will be utilized in the other proceedings currently pending in the state courts. Defendants assert however, that the number of hours expended in overtime and weekend hours would not have been incurred without the expedited discovery schedule necessitated by the Lanham Act claim. Defendants seek $114,890.66 in attorneys fees as sanctions.[8] However, it appears from this court calculation of the hours submitted that the total amount expended in costs an attorneys fees totals $93,955.19[9]. Defendants have submitted the necessary contemporaneous time records specifying the hours expended and nature of work done to support this amount. *Agee v. Paramount Communications, Inc.*, 869 F.Supp. at 212 (*citing, Johnson v. New York City Trans. Auth.*, 823 F.2d 31, 33 (2d Cir. 1987); *New York Association for Retarded Children v. Carey*, 711 F.2d 1136, 1148 (2d Cir. 1983).

Plaintiff has also cross-moved for sanctions on the current motion alleging it should be awarded attorney's fees for having to respond to the current sanctions motion. However, based upon the allegations of vexatious conduct, and this court's ruling on defendants' sanctions request, it would have been necessary for this court to have a response to defendants' motion prior to determining the sanctions issue. Such notice and opportunity to be heard is provided through the notice of motion and response papers; avoiding the need to hold an evidentiary hearing. *See, Interstate Ore and Fertilizer*

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[8] Defendants also request $26,625 in time and 104.33 in expenses for lost time that they could have devoted to their architectural practice. The court does not believe this is an appropriate sanction in this action and will not award such monies.

[9] Defendant's attorneys have each submitted time sheets supporting fees, costs and expenses of $58,299.20 for O'Connell and Aronowitz, and $35,655.99 for the Law Offices of Robert J. Marvin.

Corp. v. S.G.S. Control, 38 F.3d 1279, 1286-87 (2d Cir. 1994). (Discussing response in opposing papers as demonstrating notice and an opportunity to be heard.) Plaintiff's motion for sanctions is denied.

In conclusion, defendants motion for sanctions is granted in the amount of $93,955.19 against plaintiff and its attorneys in equal amounts. Plaintiff's cross motion for sanctions is denied.

/s/ CON. G. CHOLAKIS
CON. G. CHOLAKIS, JUDGE
UNITED STATES DISTRICT COURT

DATED: Albany, New York
May 12, 1995

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF NEW YORK

No. 94-CV-0830

Filed October 28, 1994

EINHORN YAFFEE PRESCOTT
ARCHITECTURE & ENGINEERING, P.C.,

Plaintiff,

—against—

J. LOUIS TURPIN, RHINEBECK ARCHITECTURE & PLANNING, P.C. and JOHN A. MISSELL,

Defendants.

ORDER

Upon the Application of Plaintiff for an Order to Show Cause for a Preliminary Injunction, Temporary Restraining Order, and Accelerated Discovery filed on July 1, 1994, and the papers submitted in support thereof, and upon the Defendants' Order to Show Cause signed by Hon. Con G. Cholakis on September 22, 1994, by which Defendants' Cross-Moved for Summary Judgment and Sanctions, and the papers submitted in support thereof and upon the papers submitted by Defendants in opposition to Plaintiff's Motion for a Preliminary Injunction; and upon Plaintiff's papers submitted in opposition to Defendants' Cross-Motion and in further support of Plaintiff"s Motion for a Preliminary Injunction; and upon Plaintiff's application to withdraw this action; and coun-

sel for the parties having appeared before the Court on October 14, 1994, in connection with the foregoing Motions, it is:

ORDERED, that Plaintiff's Application to Voluntarily Withdraw this Action pursuant to FRCP 12 is granted, and the action be and hereby is dismissed, without prejudice to Plaintiff's right to pursue its state claims in State Court, if Plaintiff so desires; and it is further

ORDERED, that Defendants' counterclaim interposed herein shall be deemed withdrawn, likewise, without prejudice to Defendants' rights to pursue the claims set forth therein in State Court, if Defendants so desire; and it is further

ORDERED, that Defendants' Cross-Motion for Summary Judgment is denied as moot in light of the dismissal of Plaintiff's Action; and it is further

ORDERED, that the Court denies without prejudice Defendants' Cross-Motion for Sanctions, and orders Defendants to file and serve appropriate motion papers and supporting papers providing notice as required under Rule 11 of the Federal Rules of Civil Procedure and the Local Rules of Practice for the United States District Court for the Northern District of New York demonstrating attorney's time expended in this proceeding relative to claims asserted by Plaintiff under 15 U.S.C. 1125 (Lanham Act); and it is further

ORDERED, that this Court shall retain jurisdiction of this action for purposes of determining Defendants' Motion for Sanctions.

Dated: October 27th, 1994

/s/ CON G. CHOLAKIS
Hon. Con G. Cholakis
United States District Court Judge

UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

Dkt No: 95-7552

Filed May 14, 1996

At a stated term of the United States Court of Appeals for the Second Circuit, held at the United States Courthouse, Foley Square, in the City of New York, on the 14th day of May one thousand nine hundred and ninety-six.

EINHORN YAFFEE

Plaintiff-Appellant,

—v—

TURPIN

Defendant-Appellee.

A petition for rehearing containing a suggestion that the action be *reheard* in banc having been filed herein by the appellant Einhorn Yaffee Prescott Architecture & Engineering.

Upon consideration by the panel that decided the appeal, it is Ordered that said petition for rehearing is DENIED.

It is further noted that the suggestion for rehearing in banc has been transmitted to the judges for the court in regular

active service and to any other judge that heard the appeal and that no such judge has requested that a vote be taken thereon.

FOR THE COURT

GEORGE LANGE III, Clerk

By: /s/ BETH J. MEADOR
Beth J. Meador

Administrative Attorney